

# **Reducing Taxpayer Burden – Expanding e-Filing and e-Services**

**Remarks Before the IRS Oversight Board by**

**Kevin Belden, Chairman**

**Electronic Tax Administration Advisory Committee (ETAAC)**

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Mr. Chairman, Members of the Oversight Board and distinguished guests. My name is Kevin Belden and I'm honored to serve as the Chair of the Internal Revenue Service Electronic Tax Administration Advisory Committee (ETAAC). Thank you, on behalf of the Committee, for the opportunity to share our views on the important goal of reducing taxpayer burden through enhanced IRS electronic services to citizens and businesses. ETAAC was established to provide continued input to the development and implementation of the IRS strategy for electronic tax administration. Members of ETAAC represent a diverse cross-section of IRS partners, customers and stakeholders.

Over the past several years, the focus of many tax agencies around the world has been on improving the efficiency of internal processes and enhancing involuntary collection systems. Recently, with generally heightened customer expectations for quality service and the growth in services provided over the Internet, the focus has shifted to enhancing the effectiveness of customer service systems. While efficiency and cost-reduction are not neglected as objectives, quality customer service is now the main theme when tax executives talk about their burning issues. There's also a growing recognition that improvements in customer service can increase voluntary revenue collection. While some argue that tax agencies aren't likely to win many new customers by providing superior service, there are clearly revenue benefits to be derived from making it easier for willing taxpayers to comply.

In the tax environment, the notion of "customer" isn't straightforward. Tax agencies provide services to individuals, businesses of all sizes and in various industries and tax professionals who represent taxpayers in various matters, ranging from filing returns to defending legal actions. The tax administration world is a complex place. It's governed by multi-jurisdictional statutes and rules, involving highly specialized knowledge and processes and inhabited by a broad range of customers, who mostly conduct business with tax agencies by mandate rather than by choice. Improving service to tax customers, and making it easier for them to understand and comply with their obligations, can enhance voluntary compliance and create a more business-friendly environment.

## **Electronic Services**

As with electronic filing, the "easy" wins in providing electronic services have already been achieved by the IRS. The Digital Daily has been a popular source of electronic tax information for several years now, and non-interactive services have been implemented over time. Most recently, the site has been transformed to "irs.gov", with a new and improved look and new features and services. However, the kind of interactive electronic

services required to match the best commercial Internet sites demands more than just a well-conceived web site; it also requires significant modernization of the agency's core systems to prepare them to support online service delivery. The IRS' Business Systems Modernization (BSM) Project is aimed at that target. ETAAC supports the continuation of IRS efforts to modernize its core systems to provide the fundamental enablement of future e-services.

In addition to improving the taxpayer's experience, the modernization of IRS business systems and information processing can provide significant improvements in the efficiency, timeliness and accuracy of tax administration. The transition to computerized tax calculation and electronic filing of returns should significantly reduce the workload and cost of return processing and resolution of accidental errors. By reducing the percentage of the IRS resources devoted to manual processing of paper returns, more of the agencies personnel can be devoted to pre-filing education, taxpayer service and compliance activities.

Electronic services are also key to enabling tax practioners to become more fully engaged in electronic tax administration. Over 57% of all individual taxpayers and more than 80% of all businesses utilize professional tax practitioners. They are a primary customer of IRS e-services, and their involvement is critical to any efforts to reduce taxpayer burden. Expanding their involvement is dependent on offering them a full range of electronic services; not just electronic filing. Practitioners who continue to file paper returns have indicated that their interest in participating in electronic filing would increase dramatically if they could conduct all their business transactions with the IRS electronically, eliminating the need for dual paper and electronic business processes.

For that reason, ETAAC strongly supports the IRS's plan to offer to participating practitioners, as a reward and incentive for e-filing, a basket of related electronic services. These services could eventually be offered to all customers, but ETAAC firmly believes that they should initially be used to reward those practitioners who participate in e-file at the highest rates, relative to the number of returns they could be filing electronically (the demographics of some practitioners' customer bases precludes the e-filing of high volumes of returns, so basing access to e-services on a relative basis rewards all practitioners who maximize e-filing opportunities).

As e-services become available, practitioners will be able to check clients' estimated payments before filing the tax return, submit powers of attorney and resolve client account issues electronically. The value of these services should not be underestimated by the IRS. Practitioners who find these services valuable will tell other practitioners. They, in turn, will want to avail their clients of these same benefits and will join the e-file circle.

## **The Role of Online Filing in Reducing Taxpayer Burden and Improving Tax Administration**

Presently, the universe of taxpayers who have access to e-filing – that is, those who use paid preparers, buy tax preparation software or use web-based services – is less than the 2007 80% e-filing target set by Congress. Prior to this past year, the IRS had seen e-file growth rates that would suggest they would hit the target. This past year, for the first time, the growth rate declined to a level which, if projected forward, would fall short of the goal. This result is not entirely surprising; the “easy” gains have been achieved and the more difficult challenges lie ahead. ETAAC believes that attaining the 80% goal will require innovation on the part of both the IRS and private sector providers.

No-fee online filing has been a frequent topic of discussion by ETAAC, and has been addressed in the ETAAC Report to Congress for each of the past two years. In those Reports, ETAAC expressed support for encouraging private-sector provision of no-fee e-filing alternatives, citing trends that seemed to be leading toward expansion of no-fee options in the marketplace. However, both Reports recommended a reassessment of the issue at about this time, in light of the availability of no-fee online filing options. Specifically, ETAAC recommended the following in the 2001 Report:

"Consistent with the 2000 ETAAC Report to Congress, the 2001 ETAAC recommends a reassessment next year of the online filing marketplace and of the progress in meeting online filing objectives. In preparation, ETAAC strongly recommends that the IRS perform or contract for a targeted review to determine the obstacles, motivations and mitigation strategies, if any, required to ensure continued growth in self-preparer e-file participation. This review should include:

- A survey, by demographic segment, of self-preparer awareness of and attitudes toward e-filing;
- A determination of the impact cost has on self-preparer e-file participation, relative to other concerns that impede e-filing;
- An analysis of the current and projected future availability of no fee and low fee online filing;
- An assessment of the current and future direction of no fee and low fee online filing, and what could be done to promote it;
- A ranking of obstacles, by demographic segment; and,
- An evaluation of the motivators and incentives required to advance the self-preparer e-file program."

Since that time, no-fee online filing options have not grown as expected, and in fact have arguably decreased. At a high level, there are two issues with which ETAAC and others have struggled and which now should be addressed:

- What role should the IRS play in providing no-fee e-filing opportunities, and

- To what extent is the cost of online filing an impediment to e-file growth, and how much net growth could be expected by providing no-fee online filing alternatives.

With respect to the first issue – the role the IRS should play in providing no-fee online filing – it now appears that only limited no-fee online filing options will be available through private sector providers in the foreseeable future. The ETAAC members at the last meeting agreed that, absent broadly available no-fee alternatives, the IRS has a legitimate right and need to fill the gap by providing such services, either directly or by contracting with third parties. However, given the critical role that private sector providers of e-filing services have played in advancing e-filing to this point, and our dependence on them for future gains, the development by the IRS of an online filing option needs to be approached with caution. Concerns include limiting the online filing capability to information capture and electronic transmittal (no tax preparation advice), while still providing enough functionality to make the application user-friendly and error-resistant. We expect that defining that boundary will generate considerable debate, but believe that the time has come to develop an alternative plan for providing no-fee online filing.

Regarding the second issue – the need for and value of providing no-fee online filing – the Committee has a general impression, based on limited survey information and anecdotal evidence, that broader availability of no-fee online filing is needed and would increase the rate of adoption of e-filing. However, we don't have sufficient information to quantify the increase, and therefore can't predict how this initiative would compare to other potential initiatives in increasing electronic filing and advancing other electronic tax administration goals. Assuming limited IRS resources to pursue competing initiatives, we can't say how this initiative should be prioritized relative to other projects on the IRS plate. We recommend further analysis to answer these open questions.

### **The Critical Dependency on Security and Privacy**

While improving taxpayer service is a primary IRS objective, ETAAC also understands the critical importance of protecting privacy and the security of confidential tax information. Opening new channels of service and communication presents significant challenges with respect to ensuring the privacy, confidentiality and security of taxpayer information. On the one hand, the IRS needs to make taxpayer information readily and conveniently accessible. On the other hand, it has to continue to be committed to its fiduciary responsibility to protect that information from unauthorized disclosure and attack. ETAAC understands and supports the urgency of rolling out new self-service options for taxpayers and tax practitioners, but is also keenly aware of the chilling impact that a security breach would have on IRS e-service initiatives.

That concludes my remarks to the Oversight Board. Thank you for the opportunity to comment on these important issues.